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Prepared by Wu/Gk

**Exposure Draft ED/2015/8 "Application of Materiality to
Financial Statements"**

23 February 2016

Dear Mr Hoogervorst,

Enclosures
Comments of the German
Banking Industry Committee

Thank you for the opportunity to comment on the Exposure Draft
ED/2015/8 *Application of Materiality to Financial Statements*,
published on October 28th 2015. Please find enclosed the comments
of the German Banking Industry Committee.

Yours sincerely,
on behalf of the German Banking Industry Committee,
Association of German Banks


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Comments

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Berlin, 23 February 2016

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1.700 banks.

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Comments Exposure Draft ED/2015/8 “Application of Materiality to Financial Statements”

We are very pleased to be given the opportunity to comment on the Exposure Draft ED/2015/8 *Application of Materiality to Financial Statements*, published on October 28th 2015.

We appreciate that the IASB has issued draft guidance to help management apply the concept of materiality. We agree with the objective of this practice statement, namely to assist management in applying the concept of materiality and to improve the effectiveness of information disclosed in financial reports. The practice statement has the benefit of confirming the way banks already apply the concept of materiality. For example, the practice statement states that not everything needs to be disclosed even if it is described as a minimum requirement and encourages the use of judgment when making decisions about what to disclose. Similarly, it is useful to have common-sense confirmation of the need for balance in assessing and meeting users’ needs. We also welcome the fact that the draft practice statement addresses relevance and usefulness in the context of the needs of users. We are especially pleased to note the draft practice statement’s emphasis on materiality being not just a quantitative criterion, but one that should also be judged in conjunction with what may be expected to be important to users.

There are nevertheless some points and recommendations we would like to make which we believe will contribute to a better understanding of the materiality concept.

Please find our detailed comments below.

Question 1 – Form of the guidance

- No comments.

Question 2 – Illustrative Examples

Do you find the examples helpful in the [draft] Practice Statement? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those examples would be helpful to entities.

■ Judgement, paragraph 12

We basically agree that preparers of financial statements should regularly reassess the materiality of the information they report as the entity’s circumstances may change over time. It would be helpful, in our opinion, if the draft contained a brief example of such a reassessment as we consider it an important aspect. The mentioned comparison between current and prior year information with regard to changes in the entity’s activities or circumstances does not provide preparers with clear guidance on what information is material in a reassessment.

■ Disclosures specified in IFRS, paragraph 53

We basically support the idea of providing examples throughout the draft in the interests of improving understanding of the materiality concept. By referring to different circumstances in which materiality needs to be considered, the practice statement will help to broaden the perspective of preparers on the issue. We nevertheless feel that the inclusion of more detailed examples, like those in paragraph 53, would be more useful than those mentioned in the draft, which are less helpful and tend to disrupt the reading flow. Take, for instance, paragraph 5, which makes reference to takeover bids and profit warnings but does not go into greater detail about materiality in these contexts. We would

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recommend deleting most of these brief references and extending paragraph 53 to include more detailed and transparent examples. Alternatively, detailed examples could be placed in an additional, dedicated section of the practice statement. We would also welcome it if the examples referring to IAS 16, IAS 19, IFRS 2 and IFRS 8 contained more detailed information in terms of assessing materiality in the context of financial statements. The example referring to IFRS 2, for instance, could be complemented by a reference to the management’s discretion regarding the variables in the model for measuring share options at fair value.

As well as referring to accounting standards, we suggest providing examples concerned with entities’ typical problems and circumstances during the preparation of their financial statements in the context of the IASB’s Conceptual Framework’s objective.

Question 3 – Content of the Practice Statement

Please comment on the following and provide any suggestions you have for improving the [draft] Practice Statement:

(d) Do you think any paragraphs/sections are unnecessary? If so, which paragraphs/ sections are they and why?

■ **Characteristics of the primary users, paragraph 16**

We support the conclusion that primary users cannot be seen as financial reporting experts since knowledge of business and economic activities does not automatically lead to an exhaustive grasp of financial statements. However, the paragraph neither describes the consequences for preparers of financial statements nor indicates how preparers should respond to the lack of users’ expertise. As a result, it does not contribute to an understanding of the materiality concept and is not particularly beneficial. We therefore suggest either including an example of such an incident or deleting the first sentence of this paragraph.

Question 4 – Timing

■ No comments.

Question 5 – Any other comments

Do you have any other comments on the [draft] Practice Statement?

■ **Consideration of risks and auditors**

We agree with the statement in paragraph BC7 of the Basis for Conclusions that management is generally risk averse, which can lead to an excessive disclosure of immaterial information in financial statements because it is easier than analysing in depth what information is really material. As things stand, the main body of the practice statement does not address risk-related aspects of this kind. We would suggest also mentioning risk in sections other than the Basis for Conclusions since this is an issue which inevitably arises in the context of applying materiality to financial statements.

Moreover, the practice statement should indicate that the concept of materiality also needs to be considered by auditors as they have a significant influence on the preparation of financial statements.

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■ **Regulatory aspects**

As there are currently many regulatory guidelines and aspects that have to be taken into account, especially by the banking industry, we appreciate that this practice statement focuses primarily on accounting aspects and can consequently be seen as self-contained.